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BEFORE THE  
POSTAL RATE COMMISSION  
WASHINGTON, D.C. 20268-0001

EXPERIMENTAL FEES FOR NONLETTER-SIZE  
BUSINESS REPLY MAIL, 1996

Docket No. MC97-1

DIRECT TESTIMONY  
OF JOE DeMAY  
ON BEHALF OF  
UNITED STATES POSTAL SERVICE

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**AUTOBIOGRAPHICAL SKETCH**

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My name is Joe DeMay. I am a Classification Support Specialist from the Northern Virginia Rates and Classification Service Center (RCSC) and am domiciled at the Youngstown, Ohio post office located at 99 S. Walnut St., Youngstown OH 44501-9609. I have worked for the Postal Service for 24 years.

I have been in my current position since 1993 and I am responsible for reviewing 80 postage payment systems in the Akron, Cleveland, Columbus, Pittsburgh, Erie and Charleston, WV postal districts. I also provide technical assistance to postal customers and employees in those areas as well. Part of this assistance includes working with Nashua Photo Inc. (Nashua) of Parkersburg, WV to develop several postage payment systems.

Prior to coming to the RCSC, I was the Akron Management Sectional Center (MSC) Manager of Mailing Requirements from 1987 to 1993. My previous positions include Youngstown MSC Manager of Mailing Requirements from 1985 to 1987 and bulk mail clerk from 1983 to 1985. I also have served as acting Manager of the Northern Virginia RCSC. This is the second time I have presented testimony to the Postal Rate Commission.

1 I. Purpose Of Testimony

2 The purpose of this testimony is to describe some of the current  
3 procedures utilized by the Postal Service to calculate and collect the postage  
4 and fees for nonletter-size Business Reply Mail (BRM). Three different  
5 methods of calculating BRM postage and fees for nonletter-size BRM will be  
6 described - the standard method, and two of the alternative methods, weight  
7 averaging and reverse manifesting.

8 Much of my testimony will focus on problems with weight averaging  
9 as it is being conducted at Mystic Color Lab (Mystic) and with reverse  
10 manifesting as it is being conducted at Nashua, in order to help the  
11 Commission understand that additional work is still needed to improve the  
12 operation and administration of these alternative methods to ensure that  
13 postal revenues are properly protected.

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**1 II. Standard Method**

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**2 Nonletter-size BRM is part of the regular mailstream until the Postal**  
**3 Service removes it in order for the postage and fees to be calculated. This**  
**4 normally takes place at the destination post office. In larger facilities, this**  
**5 function is usually performed by full-time, postage due clerks. At smaller**  
**6 offices, this function is usually performed by distribution and window clerks,**  
**7 or postmasters.**

**8 Depending on the volume received, the nonletter-size pieces may be**  
**9 separated by customer permit holder into two categories - flats and parcels.**  
**10 The postal employee weighs each piece of mail individually to determine the**  
**11 appropriate amount of postage, as well as the BRM handling fee.**

**12 The employee uses an adding machine or worksheet to enter the**  
**13 amount of postage for each piece of mail as it is weighed. When all the**  
**14 pieces for a particular permit holder are weighed, the clerk enters the total**  
**15 postage amount on a Postage Due Bill, PS Form 3582-A.<sup>1</sup> This amount is**  
**16 then deducted from the permit holder's account (unless the customer is using**  
**17 the cash payment option) and a postage due meter tape for the amount of**  
**18 postage is affixed to the Postage Due Bill. The Postage Due Bill is then**  
**19 forwarded with the mail when it is placed back into the mailstream for**  
**20 delivery. For smaller volume customers, a Postage Due Bill may not be**

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<sup>1</sup> Attachment A to this testimony.

1 prepared and the postage due meter tape will be affixed directly on the top  
2 piece of mail of the bundle.

3 The standard method is utilized at all post offices and requires Postal  
4 Service employees to calculate the postage for each individual piece of BRM.  
5 In situations where a customer receives large volumes of nonletter-size BRM,  
6 the standard method of handling each piece of mail individually may not be  
7 practical. In these situations, some local post offices have implemented  
8 alternative methods based on weight averaging.


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10 **III. Weight Averaging Method**

11 One method used to calculate postage for incoming Business Reply  
12 (and Postage Due) Mail is weight averaging. Weight averaging is normally  
13 implemented by local post offices which receive large volumes of nonletter-  
14 size return and/or reply mail in order to speed up the processing of the mail.

15 In preparation for implementation of weight averaging, the local post  
16 office analyzes the types of mail which make up the return mail universe and  
17 what type of separation may be required. Since Business Reply Mail is all  
18 First-Class Mail, the only separation which might be required is between the  
19 1-11 ounce pieces and Priority (over 11-ounce) Mail pieces. Once the mail is  
20 separated, the local post office then calculates and records the postage due  
21 (postage plus BRM fee) and weight for each individual piece, as well as the  
22 total pounds and total postage. This is done over several days or several

1 weeks until the local post office determines a large enough volume has been  
2 sampled. The postage and weight information for the individual pieces is  
3 then used to determine a postage per pound for the return mail. Once the  
4 postage per pound has been established, all future postage is determined by  
5 obtaining the bulk, net weight of the return mail and multiplying that weight  
6 by the current postage per pound factor. That postage per pound factor is  
7 used until it is updated.

8       Weight averaging is somewhat common in the Postal Service.  
9 Generally weight averaging is used for regular returned parcels, but it is also  
10 utilized for Business Reply Mail as well. There are no standard operating  
11 procedures for establishing and maintaining weight averaging. The sampling  
12 procedures for the initial sampling, as well as the procedures for updating the  
13 postage per pound factor, vary by site. This has resulted in inconsistencies.  
14 Also, in general, weight averaging has been designed and implemented by  
15 local postal employees who have little, or no, background or training in  
16 statistical methods. The primary objective of weight averaging is to move  
17 the mail faster. There is a need to see that statistically valid methods are  
18 developed and implemented at offices utilizing weight averaging. The  
19 administration of these weight averaging methods needs to be improved to  
20 ensure the required updating of the cost per pound is completed. The  
21 collection of the proper postage and fees can be compromised when the  
22 frequency for updating the cost per pound is not maintained. The lack of

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1 these standardized procedures and the improper administration of the  
2 procedures currently in place have led to the utilization of weight averaging  
3 which is functional, but flawed.  
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#### 5 **IV. Weight Averaging of Mystic Color Lab Business Reply Mail**


6 Mystic is a large mail order film processing company with a plant  
7 located in Mystic, CT. Currently, Mystic's customers send envelopes  
8 containing their undeveloped film to a post office box located in New  
9 London, CT. These orders are then picked up by Mystic employees twice  
10 daily, six days a week, at the New London, CT post office.

11 Mystic has been a Business Reply Mail customer since 1970. Initially  
12 the postage and fees for each piece of their Business Reply Mail were  
13 calculated individually. As their volume grew, it became less practical for the  
14 local post office to handle each piece of Mystic's nonletter-size BRM  
15 individually. This large volume resulted in the New London Post Office  
16 implementing weight averaging for Mystic in December of 1984. Weight  
17 averaging eliminated the handling of each individual piece for postage  
18 calculation purposes and allowed Mystic access to their mail much earlier in  
19 the business day.

#### 20 **A. How Weight Averaging Is Performed for Mystic**

21 Initially, data were collected for individual Business Reply Mail pieces  
22 (quantity, weight, postage, appropriate surcharges, and Business Reply Mail



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1 handling fees) for a period of two weeks. These data were compiled to  
2 determine a postage per pound factor. The postage per pound factor was  
3 utilized daily by the Postal Service in the following manner:

- 4 1. All inbound Business Reply Mail was weighed and recorded  
5 (including information on the container type and tare weight).
- 6 2. Tare weight of containers was deducted from gross weight.
- 7 3. Weight of Business Reply Mail was multiplied by the per pound  
8 factor to determined the amount to be deducted from Mystic's  
9 account.
- 10 4. Deduction was made from Mystic's Advance Deposit Account.

11 Mystic was required to submit a weekly report which provided the  
12 Postal Service with the total number of rolls of film processed and the total  
13 weight of the Business Reply Mail received from the Postal Service (less the  
14 tare weight of the containers). The reports from Mystic were intended to  
15 provide additional correlation data to the Postal Service. The original  
16 agreement called for the updating of the postage per pound factor at least  
17 once every six months.

18 The process utilized today is the same as the process as originally  
19 implemented, however, the current agreement requires that the per pound  
20 factor be updated once each Postal Service Accounting Period (thirteen times  
21 per fiscal year).

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**1 B. Problems With the Weight Averaging of Mystic Business Reply Mail**

**2 Updating the postage per pound factor on a Postal Service Accounting**  
**3 Period basis (thirteen times per year) was determined by the RCSC which**  
**4 serves Mystic to be necessary to help ensure the accuracy of the postage**  
**5 and fees collected from the customer and to account for seasonal variances**  
**6 that had been experienced in the past. Unfortunately, because of the**  
**7 significant amount of work hours required to update the postage per pound,**  
**8 the updates have only been performed once or twice a year, rather than at**  
**9 the required intervals.<sup>2</sup> The Postal Service has encountered this same**  
**10 situation at other post offices using weight averaging.**

**11 Because the Mystic update sample has only been drawn once or**  
**12 twice a year, instead of more frequently, the Postal Service has never**  
**13 collected enough data to capture any seasonality in Mystic's BRM. By**  
**14 seasonality, I mean changes in the characteristics of Mystic's BRM that**  
**15 occur at different times of the year. Such changes could cause the postage**  
**16 per pound amount to increase or decrease.**

**17 One of these changes would be a change in the weight distribution of**  
**18 the individual pieces received. This could be the result of an increase or**  
**19 decrease in the number of multiple roll orders received, or new products**  
**20 entering the mail universe, such as single-use cameras.<sup>3</sup> If the proportion of**

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<sup>2</sup> Again, local offices are still primarily driven by the objective of processing mail faster. They do not take the time necessary to perform the required updates of the postage per pound.

<sup>3</sup> Another new product in the film business is the digital disk. It is too early to determine if this will be popular with consumers, but if it is, the presence of this product in the return mail universe could impact the postage per pound.

1 heavier weight pieces increases with volume surges, this would affect the  
2 postage per pound calculation.


3 Because of the potential impact changes in the return mail universe  
4 can have on the postage per pound, it is essential that the postage per pound  
5 factor be updated frequently. While weight averaging methods may have  
6 been in effect for an extended period of time, without the performance of the  
7 required updatings, they cannot be deemed statistically validated. For the  
8 first time, the issue of the statistical validity of weight averaging is being  
9 addressed corporate-wide by the Postal Service. One of the objectives of the  
10 USPS BRM Business Process Re-engineering task force is to develop and  
11 establish updating procedures, concerning sampling methods, sample size,  
12 sampling frequency, etc., which are statistically valid.

13 Because we are not certain of the validity of the process for updating  
14 of the postage per pound at Mystic, and the sampling there has not been  
15 completed on the required AP basis, the Postal Service has no basis for  
16 determining the degree to which weight averaging for Mystic provides  
17 accurate or reliable results.

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19 **V. Reverse Manifesting of Nashua Business Reply Mail**

20 Nashua is a large mail order film processing company with a plant  
21 located in Parkersburg, WV. Currently, Nashua's customers send envelopes  
22 containing their undeveloped film to post office boxes located in 19 different

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1 locations around the country. These orders are then sent, on a daily basis,  
2 via Priority Mail reship to Parkersburg. For over two years, the Postal Service  
3 has worked with Nashua to help develop an alternative method to calculate  
4 the postage and fees for nonletter-size BRM, reverse manifesting.

5 The reverse manifest system for Business Reply Mail was implemented  
6 at Nashua in late 1994 as part of a larger project to improve the turnaround  
7 time for customer orders. The objective was to receive, process and ship  
8 orders so the customer would receive their pictures within seven days of  
9 mailing in their film. Nashua had been using Business Reply Mail envelopes  
10 for a small portion of their customers, but planned on switching about 25-40  
11 percent of their customers to Business Reply Mail. Since implementation of  
12 the system at Nashua, I have visited their Parkersburg facility and the  
13 Parkersburg post office on approximately 10 occasions. I have also had  
14 regular contact with local and district postal employees concerning the  
15 Nashua system.

16 Prior to implementation of the reverse manifest system, all of Nashua's  
17 film orders had to go to the Parkersburg post office so that Business Reply  
18 Mail pieces could be separated from the incoming mailstream for calculation  
19 of postage and fees. Even though only a portion of their orders consisted of  
20 Business Reply Mail, all of the orders had to be held until they were emptied  
21 from sacks and the Business Reply Mail orders were separated out. The  
22 Business Reply Mail orders were then further held while the pieces were

1 weighed and postage and fees were calculated. If Nashua was going to  
2 increase their use of Business Reply Mail, and improve the turnaround time  
3 for processing their orders, a better system had to be developed to process  
4 their BRM.

5 The Business Reply Mail reverse manifest system implemented at  
6 Nashua was based largely on the principles outlined in Publication 401, Guide  
7 to the Manifest Mailing System.<sup>4</sup> While manifesting is traditionally done with  
8 outgoing parcels, Nashua appeared to have some of the basic requirements  
9 for a manifest system. Accordingly, a decision was made to develop a  
10 manifest-like system for incoming mail. With the implementation of this  
11 reverse manifest system, the process of separating the Business Reply Mail  
12 from the regular mailstream was no longer required. This allowed the  
13 majority of Nashua's orders to bypass the Parkersburg post office and go  
14 directly to the Nashua plant. Orders received through the Parkersburg post  
15 office did not have to be separated into Business Reply Mail and customer  
16 paid mail and could be sent immediately to the Nashua plant. None of the  
17 Business Reply Mail pieces received directly at the Nashua plant or through  
18 the Parkersburg post office had to be held at the post office for postage and  
19 fee calculation purposes. Within approximately 30 minutes of arrival of the  
20 Priority Mail reship at its plant, Nashua has access to its Business Reply Mail  
21 for data entry and processing. (During this half hour, the incoming mail

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<sup>4</sup> A copy of the Publication was filed as USPS Library Reference SSR-148 in Docket No. MC96-3.

1 sacks are separated and weighed so the correct postage for the incoming  
2 Priority Mail reship postage can be calculated.) All of this allows Nashua to  
3 have quicker access to its incoming film orders for processing purposes.

4 **A. How Reverse Manifesting is Performed by Nashua**

5 For marketing purposes, Nashua distributes a wide variety of film order  
6 envelopes. In order to evaluate the effectiveness of marketing campaigns,  
7 Nashua prints a specific (five-digit) media code on each of various types of  
8 envelopes. The media code is printed on a tear-off portion of the envelope  
9 which includes Nashua's prices. These media codes also indicate whether a  
10 specific envelope is Business Reply Mail or customer-paid. Many of Nashua's  
11 newer envelopes have this number in a barcode format. During order  
12 processing, Nashua's data entry clerks scan (if barcoded) or manually enter  
13 the media code number from each envelope.

14 After the operator scans or manually enters the media code of the  
15 envelope, a product code based upon the type of film, the number of  
16 exposures, negatives, payment method, etc., is manually entered by the  
17 operator. Incorporated into the reverse manifest system software is a table  
18 of predetermined weights for film order components. When the media code  
19 entered indicates the envelope used was Business Reply Mail, the reverse  
20 manifest system software uses the table of predetermined weights to  
21 calculate the postage, nonstandard surcharge, (if applicable), and Business  
22 Reply Mail fee. At the end of the day, the reverse manifest system produces

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1 a summary or facsimile postage due statement for all the pieces with a  
2 Business Reply Mail media code.

3 A Detached Mail Unit (DMU), Postal Service clerk at Nashua randomly  
4 samples 50 pieces of Business Reply Mail daily (30 pieces are sampled in the  
5 morning and 20 pieces in the afternoon by two different DMU clerks).  
6 Approximately 70 percent of Nashua's orders are from repeat customers and  
7 have return address labels with a customer number. This customer number,  
8 the customer's ZIP Code, the envelope number<sup>5</sup>, along with weight and  
9 actual postage is recorded by the DMU clerk during the sampling process. If  
10 an order does not have a customer number, the customer's name and  
11 address is recorded to help uniquely identify the piece when performing  
12 verification against data entered by Nashua employees in the reverse  
13 manifest system<sup>6</sup>.

14 During the verification process, the DMU clerk compares actual  
15 postage recorded versus Nashua's reverse manifest system postage. This  
16 verification is performed "on-line" through a computer terminal provided by  
17 Nashua. Postage adjustments are handled in accordance with the procedures  
18 outlined in Publication 401. If the total postage (the First-Class Mail postage,

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<sup>5</sup> The envelope number is different than the five-digit media code number that was discussed earlier. The envelope number is a four-digit number which appears on the outside of the envelope.

<sup>6</sup> This is a departure from standard manifesting procedures. Ordinarily, a unique identification number is required in order to keep the cost of Postal Service verification to a minimum. Mailing labels for outgoing pieces in a normal manifest system are produced on a one-to-one basis. That is, a unique ID number/label is produced for each outgoing mail piece.

1 as calculated by the DMU clerk) for all sample pieces is within +/- 1.5  
2 percent of the total manifest postage for those sample pieces, the total  
3 postage due (First-Class Mail postage plus BRM fees) is collected as  
4 documented in the facsimile postage due statement. If the difference is  
5 greater than +/-1.5 percent of the manifest postage, the total postage due is  
6 adjusted according to the error percentage.

7 The reverse manifest system has eliminated the weighing and postage  
8 and fee calculation bottlenecks which sometimes resulted in delaying delivery  
9 of mail to the customer. This in turn has contributed to improved turnaround  
10 times for processing customer orders.

11 There are several problems, however, which were identified soon  
12 after implementation of the reverse manifest that continue to be unresolved  
13 today.

#### 14 **B. Problems With The Current Reverse Manifest System at Nashua**

15 During the first year of operation, postage verifications conducted by  
16 the DMU clerks at Nashua resulted in postage adjustments nearly every day.  
17 Generally, there would only be one or two days a month that the sampling  
18 results would be within the +/- 1.5% tolerance and a postage adjustment  
19 not required. Most of the samplings revealed overall postage underpayments  
20 and resulted in additional postage being collected from Nashua. Only about  
21 once every other month would a verification sampling reveal a postage  
22 overpayment and result in a refund being issued to Nashua.




1 While we are collecting additional postage through the adjustments on  
2 a regular basis, overall, we are disappointed that the system is not more  
3 accurate. We have worked with Nashua for over two years trying to resolve  
4 the problems with the manifest. While there has been some progress, the  
5 Nashua system is still plagued with problems.

6 **C. Nashua Reverse Manifest System Performance**

7 There are several different approaches which can be used to assess  
8 the performance of Nashua's reverse manifest system. These approaches  
9 would include reviewing over a period of time (1) the percentage of individual  
10 piece errors the system produces, (2) the percentage of daily samples which  
11 require postage adjustments and (3) the percentage of total postage the  
12 system calculates. A detailed discussion of the individual piece errors is also  
13 included later in this section of testimony.

14 **1. Individual Piece Errors**

15 One approach to assessing the accuracy of the Nashua system is to  
16 determine how many individual pieces the system reports at the correct rate  
17 of postage and how many individual pieces the system reports at the  
18 incorrect rate of postage. The individual piece error rate for a typical sample  
19 during the first year was approximately 20 percent. This 20 percent included  
20 all individual piece discrepancies - overpayments, underpayments and missing  
21 pieces. From a system standpoint it is disturbing when the postage for so  
22 many individual pieces is not correctly calculated and reported by the

  
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1 system. The confidence level in any postage payment system is built piece-  
2 by-piece and is based on the system's ability to accurately assess postage  
3 for each individual piece of mail.

4 A review of the monthly results for postal samplings for October 1995  
5 and June 1996 reveals there has been a gradual reduction in the number of  
6 individual piece errors from 20 percent to 16 percent. A review of the postal  
7 sampling data for the months of July, August and September of this year  
8 shows this improvement trend has continued. The sampling data for these  
9 months reveal that the percentage of pieces reported at an incorrect rate of  
10 postage was 12 percent, 14 percent, and 13 percent, respectively.

11 While the trend shows some improvement in the system's accuracy,  
12 the individual piece rate error remains high. An analysis of the various types  
13 of individual piece errors, their possible causes and possible solutions will be  
14 included later in this testimony.

## 15 2. Individual Sampling Errors

16 Another method for evaluating the performance of the Nashua system  
17 is to look at the error percentage of entire (daily) postal samplings instead of  
18 focusing on the number of individual piece errors. How many samplings  
19 were within the +/- 1.5% tolerance and how many were not and required  
20 adjustments? As stated earlier, during the first year of operation, verification  
21 samplings resulted in postage adjustments nearly every day. Similar to the  
22 reduction in the number of individual piece rate errors during the first half of

1 1996, there also was a decrease in the number of samplings which required  
2 postage adjustments. The number of samplings that require postage  
3 adjustments, however, still remains high. The postal sampling data for the  
4 months of July, August and September of 1996 reveal postage adjustments  
5 were required 68%, 54% and 48% of the time respectively. Again, the  
6 trend is positive, but the number of samplings requiring adjustments remains  
7 high. In addition, 48 of these adjustments for the July to September time  
8 period required additional postage to be paid, with only 7 adjustments  
9 involving a refund. If the Postal Service had to rely solely on Nashua's  
10 system, without any sampling procedures, postage would be underpaid on a  
11 regular basis. The overwhelming number of underpayments is evidence that  
12 the system is consistently biased in Nashua's favor.

### 13 3. Total Postage Errors

14 A third method for evaluating the performance of the Nashua system  
15 is to look at the difference in the amount of postage reported by the system  
16 and the amount of postage collected as a result of postage adjustments for a  
17 given period. Below is a listing of the variation in the amount of postage  
18 collected as a result of postal sampling adjustments. The percentage of  
19 additional postage collected for the months of June, July, and August of this  
20 year are listed below.

21 June - 2.2% additional  
22 July - 2.25% additional

August - 2.0% additional

The results show underpayments for each of these months, an obvious bias in Nashua's favor.

Regardless of which method is used to analyze the performance of the Nashua reverse manifest system, there is a consistent bias in the Nashua system. There has never been a month during which the Nashua manifest system did not underestimate the amount of postage and fees due in comparison to the sample. In summary, all three methods of error analysis reveal that Nashua's system is not sufficiently accurate, generally underreports postage, and needs further improvements.

#### D. Analysis of Individual Piece Errors

Since the implementation of the reverse manifest system at Nashua, we have studied the individual piece errors and have determined that they fall into four basic categories - film canister errors, No BRM Price errors, missing pieces and break point errors.

##### 1. Film Canister Errors

The most prevalent type of error is the film canister error. These errors involve mistakes by Nashua data entry operators when indicating whether there was a plastic, protective film canister in the film order envelope. When the media code indicates that an order was received in a Business Reply Mail envelope, the operator is prompted during the data entry process to answer the question, "Is there a film canister?" These canisters

1 weigh approximately 1/4 of an ounce and their presence will cause a piece  
2 containing one roll of film to move from a \$0.43 piece (\$0.32 plus the \$0.11  
3 nonstandard surcharge) to a \$0.55 (two-ounce) piece. If the operator fails to  
4 accurately note a canister is present, a \$0.12 underpayment results. If the  
5 operator notes a canister is present when it actually is not, a \$0.12  
6 overpayment results. Historically, these errors have been in Nashua's favor.

7 Earlier this summer we initiated a test to learn more about the canister  
8 type errors and also to help confirm the other types of errors which were  
9 occurring. As part of this test, the postal clerk examined each BRM piece  
10 sampled and determined if there was a film canister included prior to giving  
11 the sample pieces to the Nashua data entry clerks. The DMU clerk presented  
12 Nashua with approximately 270 pieces with a canister and approximately  
13 270 pieces without a canister. In order to reduce the canister error problem  
14 and to help identify the other types of errors which were occurring, the  
15 operators were told in advance, "These have canisters," or "These do not  
16 have canisters." Under these conditions the total number of pieces in the  
17 test sample that were not reported at the correct rate of postage was 31, or  
18 about 5.7 percent of the pieces sampled.

19 It must be emphasized, however, that the results of this one-day test  
20 sampling are not indicative of the system's overall actual performance. The  
21 combined results for the daily (random) postal samplings conducted during  
22 July, August, and September indicate an individual piece error rate of 13

1 percent. This test sampling simply confirmed our assumption that the  
2 inability to resolve the canister situation was one of the main causes of the  
3 reverse manifest system's inaccuracies.

#### 4 2. No BRM Price Errors

5 Another type of problem with the Nashua system is an error we have  
6 termed as "No BRM Price." This situation occurs when the postal clerk  
7 samples a piece, but cannot find a BRM price indicated when attempting an  
8 on-line verification in Nashua's system. We have determined this occurs  
9 when a non-BRM media code has been entered in the system. This may  
10 happen if the media code is entered in error, or if a Nashua customer uses  
11 part of an old order envelope (perhaps with lower prices) and includes it in  
12 the BRM envelope in order to save postage. The actual order form which  
13 contains the media code is a tear-off portion of the envelope. We have  
14 confirmed this situation does occur, but are not convinced this is the only  
15 reason No BRM Price errors occur. For example, it is Nashua's policy to  
16 honor any price from earlier envelopes. The results of the postal samplings  
17 for July, August and September reveals this type of error occurred 47 times  
18 or in about 1 percent of the pieces sampled.

19 These types of errors, as well as the missing piece errors I discuss in  
20 the next section of testimony, are significant from a system standpoint  
21 because the system does not include the postage and fees for these pieces in  
22 the postage due facsimile statement. The system treats these pieces as if

1 they were customer paid, non-BRM orders. Every No BRM Price piece (or  
2 missing piece) results in lost revenue. This type of error is significant  
3 because the lost revenue is not just an additional \$0.12 or \$0.23 in  
4 additional postage. The postage and fee for the entire piece is "lost."

### 5 3. Missing Piece Errors

6 On some occasions we have been unable to locate a sampled  
7 mailpiece in Nashua's system. As stated in the previous section, these are  
8 the most significant errors from a system standpoint. As with the "No BRM  
9 Price" errors, these errors are significant because the system assesses no  
10 postage or fees for these pieces when these types of error occur. During  
11 July, August and September there were 6 pieces, or about 0.1%, which  
12 could not be found. In order to reduce the possibility of a missing piece  
13 being caused by a mistake of the DMU clerk when recording the customer  
14 number from the piece, the clerk always records the sender's ZIP Code.  
15 (During early implementation, the DMU clerks photocopied the 50 sampled  
16 mailpieces in order to provide Nashua a better opportunity to find missing  
17 pieces. This process was stopped after several months because it was  
18 costly and did not seem beneficial.)

19 In addition to recording of the customer's ZIP Code, the envelope  
20 number on the outside of the envelope has been added to the postal  
21 verification sampling process since the system was first implemented.  
22 Despite the additional recording time this takes, both of these categories of

1 information provide Nashua and the DMU clerk additional opportunities to  
2 search for pieces which cannot be found in the system during the initial  
3 search. While I do not have any specific figures, oftentimes missing pieces  
4 are "found" in the system using these additional searching capabilities. That  
5 would tend to reduce the chances that the missing pieces are paid for twice.  
6 Despite some reluctance on our part, from a system standpoint, Nashua is  
7 always provided an opportunity to use their own advanced searching  
8 capabilities to "find" missing pieces. Our reluctance results from giving a  
9 customer (Nashua) sufficient information concerning a piece to allow them to  
10 potentially "manufacture" proof the piece was in the system. The fact that  
11 Nashua does not find every missing piece is a good news, bad news  
12 situation. The good news is it reveals the integrity of Nashua as a company.  
13 The bad news is that the missing pieces are truly missing pieces.

#### 14 4. Breakpoint Errors

15 Other single piece errors occur when the weight of a mailpiece is right  
16 at an ounce break point. These types of errors are normal in a manifest  
17 system with predetermined weights for light weight components. These  
18 types of errors tend to be equally split between the mailer and Postal  
19 Service's favor, and by themselves would not result in a postage adjustment.  
20 The possibilities for these types of errors (and all individual piece weight  
21 errors) can be reduced by keeping updated predetermined weights. To our



1 knowledge, Nashua has not updated their predetermined weights since the  
2 system was implemented.

3 ~~E. Lack of A Manifest Printout~~

4 ~~Most of the problems with the Nashua system discussed thus far have~~  
5 ~~been day-to-day errors. In addition to these operational errors, there is a~~  
6 ~~critical shortcoming in the design of the manifest system. The Nashua~~  
7 ~~system cannot produce a hard copy or acceptable electronic manifest listing,~~  
8 ~~as required in the Publication 401. This is a critical element the Postal~~  
9 ~~Service needs in order to verify postage.~~

10 ~~While the Postal Service can verify if a piece has been properly~~  
11 ~~identified as BRM and verify the postage amount the system has assigned,~~  
12 ~~the Postal Service still does not have a manifest listing to verify that a~~  
13 ~~particular piece is actually included in the total postage amount on the~~  
14 ~~postage due facsimile statement.~~

15 ~~An analogy would be, if you went to your local grocery store and~~  
16 ~~asked the checkout clerk how much a can of green beans cost, the clerk~~  
17 ~~scanned the UPC code on the can, and the store's system price was~~  
18 ~~displayed. When you purchase your groceries, however, if the store does~~  
19 ~~not provide you a cash register tape (manifest listing), you cannot be sure~~  
20 ~~what price you actually paid for the beans, or if your grocery bill total is~~  
21 ~~correct. Without a manifest printout, the Postal Service is in the same~~  
22 ~~position.~~

1 ~~Nashua has worked with their programming staff to resolve this~~  
2 ~~issue, but as of today an acceptable manifest listing is not available.~~

3 **F. Other Operational Issues**

4 Despite the various problems associated with the system, we have  
5 remained supportive of Nashua's effort. I have visited Nashua approximately  
6 10 times during the past two years and have had telephone conversations  
7 with Jack Sigman, Nashua's Manager of Production Services, and  
8 Parkersburg post office employees on a regular basis concerning the reverse  
9 manifest system and all of Nashua's postage payment systems. As part of  
10 our ongoing concerns, we have considered making additional changes in our  
11 verification procedures. As Nashua's BRM volume increased, we should  
12 have considered increasing the size of our verification sample from 50 pieces  
13 a day to 70 or 100 per day based on the guidelines found on page 103 of  
14 the Publication 401. In the spirit of customer cooperation, a decision was  
15 made not to expand the sample size while the BRM task force was working  
16 with Nashua.

17 The Postal Service is also concerned because culling is taking place  
18 prior to the taking of samples at Nashua by the postal clerk. When orders  
19 are removed from the incoming Priority Mail bags, the lightweight pieces  
20 (usually containing negatives for reprint orders) and the heavy pieces (usually  
21 single-use cameras or large multiple roll orders) are culled out so they can be  
22 directed to different work areas in the plant. A review of the postal sampling

1 records of the Parkersburg post office, as well as those generated by Nashua  
2 as part of their internal quality control procedures, reveals these types of  
3 pieces are not being included properly in the sampling.

4 The existence of culling was only brought to the attention of our BRM  
5 task force recently. The Postal Service does not regard the culling to  
6 represent an attempt by anyone to distort the sampling process. Instead, the  
7 culling that takes place is the result of failure on the part of the Postal  
8 Service and Nashua to more fully coordinate their efforts and a lack of  
9 knowledge on the part of both parties at the local level concerning the  
10 representativeness of samples.

11 The Postal Service needs to change the sampling procedures so an  
12 appropriate number of these types of pieces are included in the regular  
13 sampling. By doing so, we can ensure that the lighter and heavier pieces are  
14 processed within the reverse manifest system and the proper amount of  
15 postage is being collected. Because these light and heavy pieces are  
16 processed in different parts of the plant, we want to ensure they are subject  
17 to the same data entry process as the regular weight orders. It is only during  
18 the data entry process, when the media code is entered, that the piece is  
19 identified as BRM and postage and fees are calculated. Any BRM pieces  
20 which bypass the normal data entry system would be not be assessed any  
21 postage or fees. There is a track record of how many regular weight orders  
22 show up as missing pieces and No BRM Price. Because these lighter and

1 heavier weight pieces have not been sampled on a regular basis by the Postal  
2 Service, we do not have enough information to evaluate the system's ability  
3 to assess the proper postage and fees for these types of pieces.

4 We are especially concerned with the heavier weight pieces. While  
5 Nashua has various predetermined component weights in their system, they  
6 only have one weight for single-use cameras, despite processing cameras (of  
7 different weights) which are produced by a variety of manufacturers.

8 We have additional concerns with heavier weight orders which are  
9 received at Nashua in boxes with a BRM envelope affixed. We are concerned  
10 because we are not sure what predetermined weight, if any, is being  
11 assigned to these "miscellaneous" containers. Again, these culling issues  
12 and the impact of the light and heavy pieces are matters that have only  
13 surfaced recently. This is further evidence that a reverse manifest system is  
14 not something which can be simply taken out of the box and plugged in.  
15 Even after two years of working with the Nashua system, we are finding  
16 there are still things to be learned about their system.

#### 17 **G. Summary of Nashua's System Performance**

18 Nashua's reverse manifest system has not reached the full level of  
19 accuracy the parties had in mind when the system was first developed. We  
20 expected a system that would report the correct postage and fees for every  
21 piece. We expected a system which would have few daily adjustments and  
22 would permit us to reduce the daily sampling to approximately once per

1 week. We expected a system that would not overstate or understate  
2 postage on any regular basis. From a system standpoint, the number of  
3 individual piece errors and the number of daily samples which require a  
4 postage adjustment remain high. The system has failed to meet our  
5 expectations.

6 Our findings and possible solutions for eliminating these errors have  
7 been discussed with Nashua on a continual basis, but these solutions, or  
8 others developed by Nashua, have yet to be implemented.

9

10 **V. Conclusion**

11 Our experience with these mailers reveals that, despite the efforts of  
12 all parties, weight averaging and reverse manifest systems used in  
13 conjunction with BRM still have flaws which affect the reliability and  
14 accuracy of the calculation of their postage and fees. For now, we continue  
15 to utilize both systems despite these flaws, while our BRM task force works  
16 to resolve these issues. In the case of Nashua, if they were a regular,  
17 outgoing manifest mailer experiencing these same types of performance  
18 problems, we would have canceled their manifest authorization.  
19 Discontinuing the current systems, however, would only result in denying  
20 Mystic and Nashua quick access to their mail and delays in the fulfillment of  
21 customers' orders.

1           When granting a customer an authorization for a postage payment  
2   system, such as weight averaging or reverse manifesting, the Postal Service  
3   is providing the customer an alternative method of paying postage over more  
4   traditional methods. In doing so, the Postal Service avoids the manual piece-  
5   by-piece accounting function and subjects this mail to considerably less  
6   scrutiny. Because of this, it is imperative that the customer's postage  
7   payment system be accurate and reliable. Situations in which customers do  
8   not meet the terms of their postage payment service agreements, or where  
9   systems have chronic errors, cannot be simply shrugged off. These  
10   situations are serious and need to be addressed. With the cooperation of  
11   and encouragement from mailers like Nashua, Mystic, and Seattle Filmworks,  
12   the Postal Service is taking great strides toward finding solutions and looks  
13   forward to the opportunity to develop those solutions.

**U.S. Postal Service**  
**POSTAGE DUE BILL**

Name of Customer and Address

Dated  
Postmark

Postage due articles amounting to \_\_\_\_\_ dollars and \_\_\_\_\_ cents are delivered upon payment of this amount. Equivalent postage is attached to this and the necessary follow sheets that form a part of this bill. If you have deposited a sum in advance for postage due mail, the amount of this bill is being deducted from your account. Please see that the value of the attached postage corresponds with the amount stated.

Number of Follow Sheets to This Bill		Signature of Postmaster				Per		

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USPS-T-1, Attachment A